

## **CSD SUPPLEMENTAL AUDIT GUIDE**

**Purpose:** The purpose of this guide is to provide a tool that can be used by the independent auditor and CPA firms that perform audits of agencies that contract with the California Department of Community Services and Development (CSD). All independent auditors and CPA Firms must follow this audit guide if the agency being audited is funded, totally or in part, by CSD contracts.

The primary focus of this guide is auditing and reporting on specific items of costs reported by CSD-funded agencies. The procedures outlined in this guide will, in most cases, exceed the requirements of Office of Management and Budget (OMB) Circular A-133.

This guide is not intended to be an auditing-procedures manual but rather a guide that will assist the independent auditor and CPA firm in testing certain costs identified by CSD as needing more-detailed disclosure. Auditors performing the work related to this audit guide must still exercise professional judgment.

### 1. **Auditor's Judgment**

The auditor shall follow the procedures included in this audit guide unless in the exercise of his or her professional judgment, the auditor determines that other procedures are more appropriate in particular circumstances. However, the auditor must justify in writing any change from the audit procedures suggested by this audit guide.

### 2. **Selected Items of Cost: Weatherization Crew Hours**

- A. Does the agency have a system in place to capture the actual hours each weatherization worker spends on each house? If so, document the system and report it to CSD.
- B. Verify that the monthly report summaries used to report weatherization crew hours provide accurate information by selecting a representative sample. Trace the monthly closeout report totals for weatherization labor hours to the agency's monthly report summaries and then confirm this to the supporting source documents.

### 3. **Inventory System**

- A. The independent auditor or CPA firm must gather evidence as to the existence of the inventory listed as an asset on the balance sheet. Also, the closeout report on CSD contracts requires an inventory listing on items purchased with CSD contract funds. Inventories listed on the balance sheet and on the CSD closeout reports must be verified that they physically exist.
- B. Inventory listings must be accurately compiled in the inventory accounts. Inventories are to be properly stated at cost (except when the market rate is lower).

4. Subcontracts

Subcontracts must be arms-length agreements. Validate and report to CSD. CSD-funded agencies should be aware that contracting with wholly owned subsidiaries might not be considered arms-length agreements. This is especially true where both boards have similar members.

5. System of Internal Control

- A. Audits must include an examination of the systems of internal control. Internal control systems must be established to ensure compliance with laws and regulations affecting the expenditure of State and/or Federal funds, financial transactions and accounts, and the agency's process for submission of contractor billings submitted to CSD for the performance of the contract.
- B. The agency's accounting system must provide for accumulating and recording of expenditures by cost category (budget line items) shown in the approved budget. The independent auditor or CPA firm must give an opinion on the internal controls of the agency being reviewed.

6. Administrative Cost Cap

CSD contracts have an administrative cost cap. Administrative costs charged to each CSD contract must not exceed this cost. In addition, other Federal funds must not be used to exceed the total administrative cost cap charged to the CSD contract, unless specifically allowed by Federal statute.

7. Use of Indirect Cost Rates

- A. A Federally Approved Indirect Cost Allocation Rate may be used for selected items of costs up to the maximum allowed by the CSD contract's administrative cost rate. Costs claimed for a specific line item in the budget cannot be reported as direct costs and also as indirect costs.
- B. Validate the indirect cost rate used by the agency.

8. Basis for Allocation of Costs

The independent auditor or CPA firm must identify the agency's basis for distributing costs to CSD contracts. Costs charged to CSD contracts must be allocable, allowable, and based on actual expenses incurred by the agency for the CSD contract. Costs charged to the CSD contract must also have an approved contract budget line item.

9. Going Concern and Subsequent Events

The independent auditor or CPA firm must provide a "positive assurance" statement that any (significant) subsequent events, related directly or indirectly, that occurred after the final closeout report and single agency-wide audit are submitted to CSD do not materially affect

the closeout report, as submitted by the agency. Additionally, the independent auditor or CPA firm must provide “positive assurance” whether or not the agency will continue as a going concern. Some examples are litigation settlement, bankruptcy, mergers, large loans, cash flow problems, etc.

10. Representation Letter

A Representation Letter between the independent auditor or CPA firm and the agency must be forwarded to CSD. The Executive Director and the agency’s controller (or equivalent) must sign the Representation Letter.

11. Supplemental Statements

- A. Beginning with the 1994 program year, CSD contract provisions have required the financial and compliance audit to include supplemental statements. These supplemental statements must be included as part of the package submitted to CSD with the single agency-wide audit for each fiscal year. CSD uses the above information to reconcile the audited costs to the costs reported by the agency.
- B. The supplemental statements should be based on the budget line items contained in the contract. The supplemental statement must include the contract budget line items, expenditures for each budget line item by fiscal year, total audited costs, and total reported expenses by budget line item. Please refer to Supplemental Audit Guide Attachment Nos. 1 and 2 for examples of the format to use for the required supplemental statements.

12. Testing of Transactions

A sufficient number of items should be selected for review that represent all material costs categories. The audit should determine whether:

- a. Agency’s internal control over the contract is effective and working as intended;
- b. Reported program expenditures are allowable;
- c. Reported expenditures conform to funding or program limitations or exclusions;
- d. Reported expenditures are not charged to, or reimbursed by, other programs or funding sources.
- e. Transactions are properly approved, reported, and supported by source documents;
- f. Reported expenditures were incurred within the appropriate contract term; and
- g. Agency complied with applicable laws, regulations, and contract requirements.

Attachments:

Audit Services Unit LIHEAP WX Supplemental Statement Example

Audit Services Unit LIHEAP ECIP Supplemental Statement Example

**- LIHEAP Contracts -**

ACME COMMUNITY DEVELOPMENT, INC.  
 SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES  
 CSD CONTRACT NO. 94BD-50XX (WX)  
 FOR THE PERIOD JAN. 1, 1994 THROUGH DEC. 31, 1994

	JAN 1, 1994 through JUNE 30, 1994	JUL 1, 1994 through DEC 31, 1994	Total Audited Costs	Total Reported Expenses	Total Budget
<b>REVENUE</b>					
Grant Revenue	\$144,660	\$127,192	\$271,852		\$271,852
Interest Income	\$197	\$260	\$457		
Other Income			\$0		
Deferred Interest Earned	\$7,088		\$7,088		
Deferred Revenue Earned	\$34,004	\$39,219	\$73,223		
Deferred Grant Revenue	(\$39,416)	(\$76,422)	(\$115,838)		
Deferred Interest		(\$260)	(\$260)		
<b>Total Revenue:</b>	<b>\$146,533</b>	<b>\$89,989</b>	<b>\$236,522</b>		<b>\$271,852</b>
<b>EXPENDITURES (1)</b>					
<b>Administration (8%)</b>					
Salaries & Wages	\$4,458	\$2,378	\$6,836	\$7,196	\$10,300
Fringe Benefits	\$1,734	\$865	\$2,599	\$2,799	\$3,048
Facilities	\$1,680	\$1,229	\$2,909	\$2,909	\$3,000
Utilities					\$300
Equipment	\$796		\$796	\$2,150	
Telephone - Communications	\$107	\$67	\$174	\$269	\$700
Travel	\$1,401	(\$414)	\$987	\$987	\$1,500
Accounting					
Audit Costs	\$370	\$260	\$630	\$1,000	\$1,500
Insurance - Bonding			\$0		
Office Supplies	\$109	\$185	\$294	\$295	\$800
Miscellaneous	\$75	\$134	\$209	\$444	\$600
<b>Total Administration Costs:</b>	<b>\$10,730</b>	<b>\$4,704</b>	<b>\$15,434</b>	<b>\$18,048</b>	<b>\$21,748</b>
<b>Program (92%)</b>					
Outreach	\$6,850	\$6,850	\$13,700	\$12,041	\$13,800
Intake	\$8,835	\$8,545	\$17,380	\$23,262	\$28,800
Client Education & Counseling	\$7,462	\$2,569	\$10,031	\$11,041	\$12,100
Client Assistance	\$6,324	\$4,901	\$11,225	\$11,041	
Assessment					\$12,100
Salaries/ Wages/Labor	\$40,410	\$36,668	\$77,078	\$85,073	\$101,100
Fringe Benefits	\$16,802	\$16,550	\$33,352		
Weatherization Materials	\$17,250	\$6,304	\$23,554	\$23,554	\$13,084
Maintenance/Repair			\$0	\$297	\$500
Equipment Lease/Purchase/Rent	\$9,796	\$1,355	\$11,151	\$10,704	\$15,800
Travel			\$0	\$626	\$1,300
Storage	\$15,541		\$15,541	\$15,541	\$20,220
Space			\$0		
Insurance - Vehicular	\$5,424		\$5,424	\$9,126	\$21,300
Supplies	\$109	\$185	\$294		\$7,500
Utilities			\$0		\$1,500
Other	\$1,000	\$1,358	\$2,358	\$9,078	\$1,000
<b>Total Program Costs:</b>	<b>\$135,803</b>	<b>\$85,285</b>	<b>\$221,088</b>	<b>\$211,383</b>	<b>\$250,104</b>
<b>Total Costs:</b>	<b>\$146,533</b>	<b>\$89,989</b>	<b>\$236,522</b>	<b>\$229,431</b>	<b>\$271,852</b>

(1) Please note that the supplemental statements should be based on the budget line items contained in the contract and will need to be adjusted to incorporate the line items applicable to specific contracts.

ACME COMMUNITY DEVELOPMENT, INC.  
 SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES  
 CSD CONTRACT NO. 94BD-50XX (ECIP)  
 FOR THE PERIOD JAN. 1, 1994 THROUGH DEC. 31, 1994

	JAN 1, 1994 through JUNE 30, 1994	JUL 1, 1994 through DEC 31, 1994	Total Audited Costs	Total Reported Expenses	Total Budget
<b>REVENUE</b>					
Grant Revenue	\$207,835	\$269,800	\$477,635		<b>\$477,635</b>
Interest Income	\$414		\$414		
Other Income		\$260	\$260		
Deferred Interest Earned	\$3,089		\$3,089		
Deferred Revenue Earned					
Deferred Grant Revenue		(\$3,089)	(\$3,089)		
Deferred Interest		(\$674)	(\$674)		
<b>Total Revenue:</b>	<b>\$211,338</b>	<b>\$266,297</b>	<b>\$477,635</b>		<b>\$477,635</b>
<b>EXPENDITURES (1)</b>					
<b>Administration (7%)</b>					
Salaries & Wages	\$6,251	\$6,477	\$12,728	\$12,728	<b>\$18,800</b>
Fringe Benefits	\$1,889	\$2,181	\$4,070	\$4,070	<b>\$5,634</b>
Facilities	\$3,695	\$4,692	\$8,387	\$8,387	<b>\$2,000</b>
Utilities					<b>\$600</b>
Equipment					
Telephone - Communications	\$809	\$913	\$1,722	\$1,722	<b>\$600</b>
Travel	\$112	\$787	\$899	\$899	<b>\$1,500</b>
Accounting					
Audit Costs	\$684	\$772	\$1,456	\$1,456	<b>\$2,500</b>
Insurance - Bonding					
Office Supplies	\$481	\$544	\$1,025	\$1,025	<b>\$800</b>
Miscellaneous	\$521	\$588	\$1,109	\$1,109	<b>\$1,000</b>
<b>Total Administration Costs:</b>	<b>\$14,442</b>	<b>\$16,954</b>	<b>\$31,396</b>	<b>\$31,396</b>	<b>\$33,434</b>
<b>Program (93%)</b>					
Outreach				\$8,159	<b>\$9,000</b>
Intake				\$54,868	<b>\$54,075</b>
Client Education & Counseling				\$19,780	<b>\$17,000</b>
Client Assistance	\$155,107	\$205,401	\$360,508	\$360,508	<b>\$358,226</b>
Assessment					
Salaries/ Wages/Labor	\$27,911	\$28,915	\$56,826		
Fringe Benefits	\$10,745	\$12,407	\$23,152		
Contract Services	\$1,069	\$387	\$1,456		
Equipment Lease/Purchase/Rent	\$163	\$11	\$174		
Travel					
Space	\$529	\$671	\$1,200		
Miscellaneous				\$2,924	
<i>Insurance - bonding **</i>					<b>\$1,900</b>
<i>Supplies **</i>					<b>\$2,000</b>
<i>Telephone Equip/System **</i>					<b>\$2,000</b>
Program Operating Expenses					
Other	\$1,373	\$1,550	\$2,923		
<b>Total Program Costs:</b>	<b>\$196,897</b>	<b>\$249,342</b>	<b>\$446,239</b>	<b>\$446,239</b>	<b>\$444,201</b>
<b>Total Costs:</b>	<b>\$211,339</b>	<b>\$266,296</b>	<b>\$477,635</b>	<b>\$477,635</b>	<b>\$477,635</b>

\*\* Miscellaneous specified

(1) Please note that the supplemental statements should be based on the budget line items contained in the contract and will need to be adjusted to incorporate the line items applicable to specific contracts.